American River Bank
MEMBER FDIC

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By________

April 19, 2005

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

#16

Subject. Interagency Proposal on the Classification of Commercial Credit Exposures

Dear Mr Feldman.

Thank you for your invitation to comment on the Interagency Proposal on the Classification of Commercial Credit Exposures (the "Proposal").

We do not believe that the Proposal materially benefits American River Bank, any other bank, the FDIC, or any supervisory agency joined in the Proposal.

To be beneficial, we believe that the Proposal would need to serve one or more of the following functions

1. Correct identified material deficiencies in loss reserves at banks

2 Correct identified deficiencies in ALLL methodologies at a material number of banks

3. Reduce claims at the FDIC, or reduce supervisory burden of troubled institutions

4 To be imagined to have been of retrospective benefit in preventing some material portion of FDIC insurance fund losses if the Proposal had been in place prior to the losses

5 Be of material benefit to bank management in measuring commercial loan risk and related loss allowances beyond those methods already employed

Essentially, this is a comparison of the state of affairs today to those that would exist following implementation of the Proposal. I would like to look at each of the five issues individually·

1. **Does the Proposal correct material deficiencies in loss reserves at American River Bank or other banks?**

No American River Bank, and the vast majority of regulated banks, carry fully adequate loss reserves, making the Proposal burdensome without benefit. For those few banks with inadequate loss reserves, it is unlikely that that inadequacy would be corrected with implementation of the Proposal.

2. **Does the Proposal correct deficiencies in ALLL methodologies at American River Bank or a material number of banks?**

No. The banking system is healthy, and reserves are fully adequate. In those few banks where methodologies are deficient, the deficiency is likely not based on an inadequate or unrealistic assignment of risk factors to below-Pass assets, or to a pattern of losses that would have been better predicted or prepared for with the use of the borrower and facility rating matrix

At American River Bank, reserve methodologies for below-Pass loans and leases are not simply rote percentages that ignore factors that would increase or mitigate risk within a given risk rating. They entail a realistic look at loss potential based on a number of factors cited in the Proposal, including collateral protection and impairment. At American River Bank, any material loan with an analyzed risk of loss greater than the policy loss factors is reason to require specific reserves for that loan, which is then used in calculating reserve adequacy and, if necessary, reserve allocations.

3. **Will implementation of the Proposal reduce claims upon the FDIC or reduce the burden of any bank regulatory agency?**

It is very unlikely that the Proposal would achieve this objective. We argue that very few, if any, losses to the insurance fund can be attributed to problems that could or would be materially addressed by the Proposal Further, it would not materially reduce any regulatory agency's burden of either a) understanding the adequacy or inadequacy of the ALLL or its related policy and methodology, or b) creating, implementing, or monitoring corrective action at any institution requiring such action.

4. **Can the Proposal be imagined, in retrospect, to have been of benefit in preventing some material portion of FDIC insurance fund losses if the Proposal had been in place prior to the losses?**

We believe that this is highly unlikely. There would only be a benefit if a) there were material insurance fund losses throughout the system and then only if b) some losses to the insurance fund could be attributed to some failure to quantify risk *which would have been corrected by use of the borrower and facility rating matrix in replacement of or in addition to methodologies already in place to reserve for below-Pass credits..*

5. **Will the Proposal be of material benefit to bank management in measuring commercial loan risk and related loss allowances beyond those methods already employed?**

No. The Proposal would be appropriate only for those banks that are found to be deficient in reserve methodologies for below-Pass credits, or for those with deficient reserves that could have been or will in future be more accurate in calculating reserve adequacy by use of the specifics in the Proposal.

The Proposal is tantamount to imposing a blanket regulatory order on all banks to do a better job in measuring and maintaining adequate reserves There is simply no risk management or business reason to do this, given the ratings strength and reserve adequacy in the greatest majority of banks

Sincerely,

Douglas E Tow
Executive Vice President
Chief Credit Officer

David T. Taber
Chief Executive Officer

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Executive Vice President
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